Financial intelligence
informa

The Context

August 6th 2018

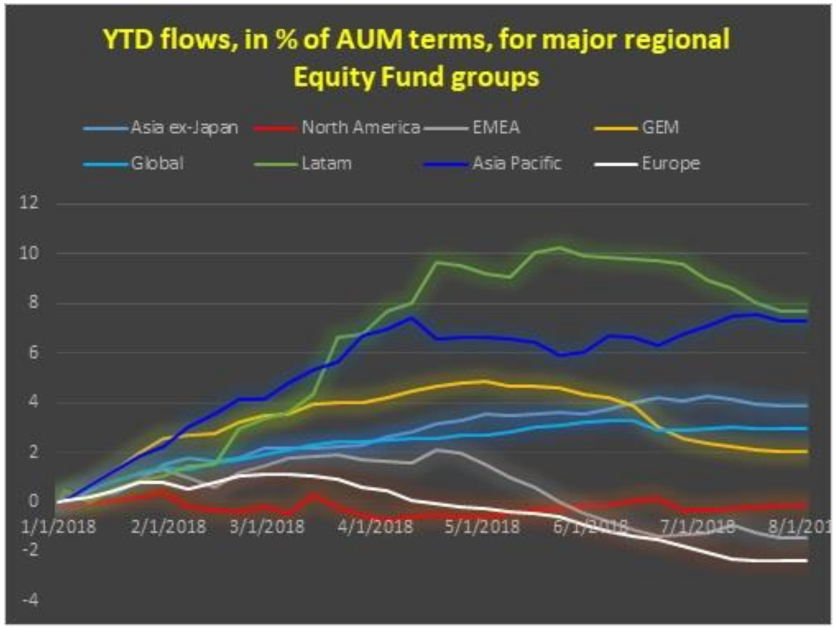
Inside this week's edition…

Know The Flows - Sector Funds Shine Through The Fog Of Uncertainty

By Cameron Brandt, Director, Research

Back to Index Page

The prospect of increased US-Sino trade tensions. The growing certainty that there will be four US interest rate hikes this year. The uncertain outlook for energy prices. Going into August, there were no shortage of clouds over the current investment landscape, and this was reflected in the lacklustre flows recorded by EPFR-tracked funds. Of the eight major Equity Fund groups by geography, six recorded outflows for the week ending August 1. Also hit with net redemptions were Balanced, Money Market and Alternative Funds, while Bond Funds collectively posted modest inflows – equal to 0.04% of total assets under management-- on the back of the $2.5 billion committed to US Bond Funds.



Bank Loan and China Equity Funds and a number of those dedicated to individual sectors were among the few fund groups that attracted positive investor interest in late July, with the latter helped by a generally strong 2Q18 US corporate earnings season.

Overall, EPFR-tracked Bond Funds collectively took in $2.2 billion during the final week of July while $277 million flowed out of Money Market Funds, $423 million out of Alternative Funds and $1.9 billion out of Equity Funds. Looking ahead, August has been a quieter month in recent years, especially for Equity Funds, as traders and investors head off for summer vacations. Net flows for all Equity Funds were negative in August 2012, 2013, 2015 and 2016. In 2014 they hit a three-month low and in 2017 a 10-month low.

At the single country and asset class fund levels, China Equity Funds took in fresh money for the 17th time in the past 20 weeks and China Bond Funds for the 14th time in the past 18 weeks while redemptions from Netherlands Equity Funds jumped to a 37-week high and Brazil Equity Funds' current outflow streak hit seven weeks and $845 million. Flows into Bank Loan Funds climbed to their highest level since mid-June, Total Return Bond Funds posted only their third inflow since the beginning of May and Inflation Protected Bond Funds recorded consecutive weekly outflows for only the second time in the past 13 months.

The final week of July saw eight of the 11 major Sector Fund groups tracked by EPFR record inflows as the 2Q18 earnings season neared its peak in the US and gathered momentum in Europe and Japan. Overall flows again had a defensive tinge, with Consumer Goods, Utilities and Telecoms all attracting fresh money and Gold Funds accounting for the lion's share of the headline number for all Commodities Sector Funds. But Technology Sector Funds pulled in over $800 million despite Facebook's earnings stumble and Real Estate Sector Funds snapped a two-week run of outflows.

USD Seasonality in August?

By Tony Nyman, Head G10 FX

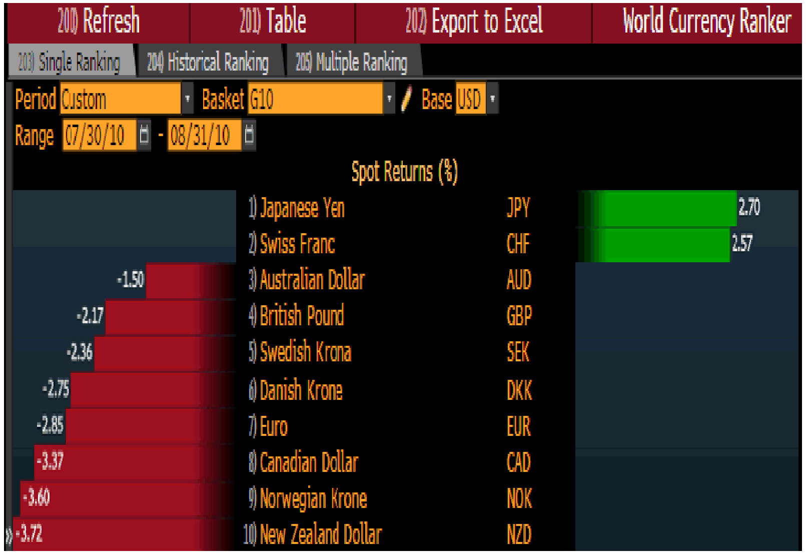
Back to Index Page

The assumption is it will be quiet given summer holidays impaired trade in the Northern Hemisphere. However, of course, thinner trade can exacerbate moves and direction.

So, what is the reality? How does the Dollar tend to perform during the month and are there any G10s that seem to trade particularly well/poorly through August?

So far, post FOMC/BOE/NFPs, the USD is losing out only vs the -0.4% JPY and up everywhere else from +0.1% CAD to 1.0%-plus vs NOK, NZD, EUR and GBP to +1.6% SEK.

- Last year, the USD was a mixed performer, down -0.3% JPY to -1.3% NOK and -1.6% SEK, with decent size gains vs the -2.2% still Brexit vote weighed GBP and -4.5% NZD.
- In 2016, mixed again. USD losses vs both -0.7% NZD and -1.4% NOK, with gains of +0.1% EUR to +1.3% JPY, +1.5% CHF.
- In 2015, another mixed bag. USD losses of -1.8% to -2.2% vs SEK, EUR and JPY, with decent USD gains seen vs +1.8% GBP, +2.7% AUD and +3.8% NZD.
- In 2014, the USD only really lost out vs NOK (-1.4%), up elsewhere from +1.0% CHF to +1.7% GBP and 1.9% EUR.
- 2013 brought mostly USD gains. Down only vs the -2.0% GBP and up elsewhere from +0.3% JPY through to +1.6% SEK, strong gains vs the commodity bloc +2.5% CAD and +3.2% NZD and +3.7% NOK.
- In 2012, we saw mostly USD losses in Aug, from -1.2% GBP to -2.2% EUR, -2.3% CHF, -2.6% SEK and -4.1% NOK. Biggest USD gains vs the +1.7% AUD.
- In 2011, the USD was a tiny loser vs JPY and NOK and made reasonable gains vs +1.1% SEK and GBP, +2.3% CAD, +2.5% CHF and AUD and best of all +2.9% NZD.
- August 2010 was the safe haven month, with USD/JPY near 85.00 (!) amid rises in spreads of sovereign CDS in some EU countries rekindling fears on debt problems. The USD lost out vs the -2.6% CHF and -2.7% JPY and made decent gains everywhere else, from +1.5% AUD, through to +2.9% EUR and those easy losers +3.4% CAD, +3.6% NOK and +3.7% NZD.

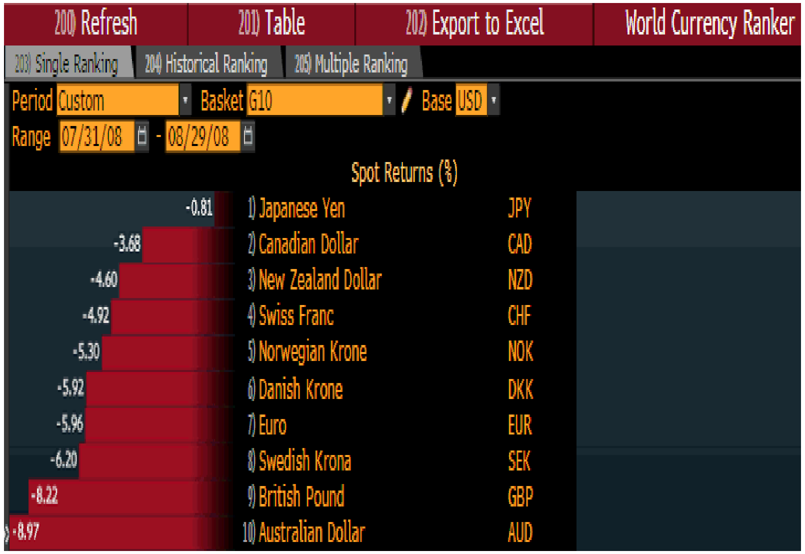


Cont. page 5

USD Seasonality in August? … continued

Back to Index Page

- In August 2009, it was almost the reverse. Largely USD losses, from -0.5% EUR to -1.7% for both NOK and JPY and biggest loser was vs -3.5% NZD. Only gains were vs +1.5% CAD, +2.5% GBP.
- In August 2008, the USD swept the board in a big way, up from +0.8% JPY, +4.6% NZD, +5.3% NOK, +6.0% EUR, +6.2% SEK, +8.2% GBP and +9.0% AUD, as US GDP data (Q2 +2.1% then the recession!) showed stimulus supported the US economy through a difficult period (Paulson).



-0.81	1) Japanese Yen	JPY
-3.68	2) Canadian Dollar	CAD
-4.60	3) New Zealand Dollar	NZD
-4.92	4) Swiss Franc	CHF
-5.30	5) Norwegian Krone	NOK
-5.92	6) Danish Krone	DKK
-5.96	7) Euro	EUR
-6.20	8) Swedish Krona	SEK
-8.22	9) British Pound	GBP
-8.97	10) Australian Dollar	AUD

- For good measure, In 2007, the USD lost out only against the -1.0% CAD and -2.5% JPY, with significant gains made vs the +2.4% SEK, +3.9% AUD and +8.0% NZD. Again!

So, August can be quiet, but we can also see sharp moves. The USD tends to perform well and the commodity bloc tends to suffer the most, particularly the NOK and that NZD.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	3.76	-2.08	.35	-2.79	-.48	-3.33	.74	-.29				
2017	5.45	-1.64	-2.59	-2.00	3.19	3.50	2.44	-4.45	.43	-5.02	-.22	3.89
2016	-5.08	1.63	4.84	.98	-3.07	5.49	.91	.71	.50	-1.85	-.95	-2.10
2015	-6.87	4.17	-1.24	1.97	-6.70	-4.81	-2.56	-3.82	.93	5.92	-2.86	3.75
2014	-1.56	3.75	3.27	-.53	-1.37	3.05	-2.95	-1.62	-6.63	-.24	.67	-.56
2013	1.21	-1.68	1.50	2.29	-7.21	-2.62	3.19	-3.23	7.42	-.45	-1.68	1.11
2012	6.38	.88	-1.85	-.02	-7.92	6.32	.92	-.66	3.32	-.92	-.26	1.02
2011	-.94	-2.65	1.21	6.36	1.73	.64	6.04	-2.87	-10.85	5.95	-3.25	-.42
2010	-3.02	-.40	1.78	2.31	-6.40	.62	6.03	-3.72	5.05	4.39	-3.12	5.06
2009	-12.15	-1.59	11.72	1.02	13.32	.81	2.49	3.52	5.56	-.71	-.29	.95
2008	2.83	1.42	-1.61	-.48	.12	-2.66	-3.66	-4.60	-4.38	-13.00	-5.78	5.52
2007	-1.80	1.48	1.85	3.65	-.50	4.87	-1.33	-7.96	8.01	2.03	-1.16	.21

US Sanctions To Be More Painful For Turkey Than Russia

By Chris Shiells, Managing Analyst EM & Ed Blake, Chief Europe FI Technical Analyst

Back to Index Page

Sanctions hammer blow for Turkey

Last week we explored how the CBRT's policy inaction is pushing Turkey on the path towards greater instability and potentially rapid inflation, and whilst this is reason enough for us to remain wary of Turkish assets, continued economic mis-management could see Turkey spiral into a currency-crisis and a series of defaults. The trigger for the start of such events could come from the announcement last night that the US had hit Turkey with sanctions over the continued detainment of US Pastor Andrew Brunson over terrorism charges. This is the last thing Turkey's already-troubled economy needs.

The sanctions over Brunson is the latest flashpoint in an increasingly fraught relationship between the NATO allies, and could push Turkey further away from the West and into the arms of Iran and Russia.

Market Reaction

In response the Lira has sunk over 3% vs the USD, 10-year local currency bond yields have surged 70bp and the Borsa 100 Index dropped 2.85% at the open, and we argue that there could be further pain to come for local Turkish markets. USD/TRY could easily take out 5.1950 and the 10-year yield could pass 18.59% (as per our earlier recommendation) if this descends into a tit-for-tat escalation of sanctions.

What the cost could be for Turkey - the case of Russia?

If Turkey does not relent on Brunson, what has become a diplomatic flashpoint could very well contribute to a much deeper economic crisis. What impact could this have on Turkey? Well we do not have to look too far in the past to assess the economic impact of sanctions, with Russia still suffering under US and EU economic penalties over the invasion of Crimea and military action in Eastern Ukraine during 2014 (March). Unfortunately Turkey's economy is in no shape for a battle with the US, and is in much worse shape than Russia's economy was four years ago.

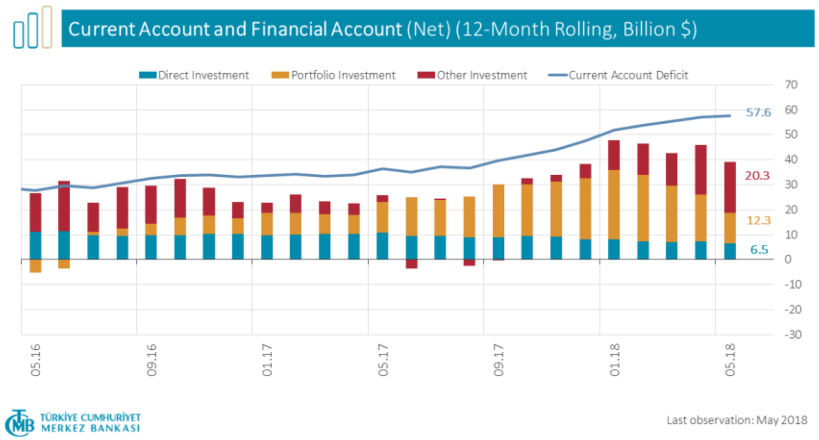
Cont. page 7

US Sanctions To Be More Painful For Turkey Than Russia … continued

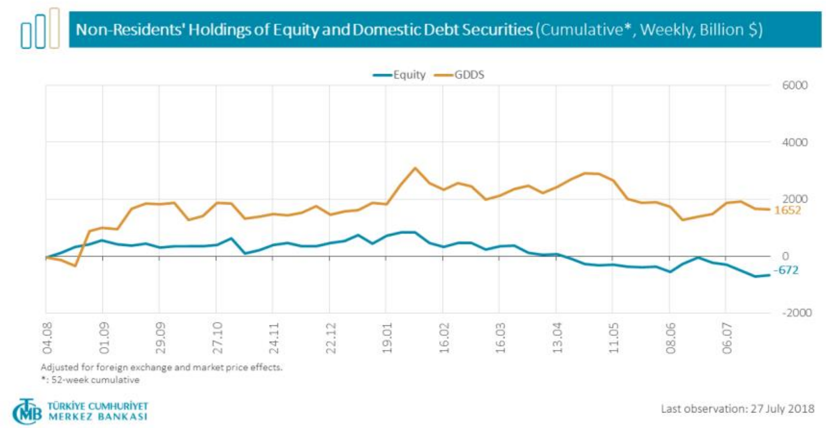
Back to Index Page

However, unlike Russia, Turkey runs a huge C/A deficit and so there is even greater vulnerability to a reduction in foreign investment as it relies on capital inflows to fund the gap. This is where the picture becomes even more negative, as the EPFR fund flows data shows that net flows into Russian Equity and Bond Funds turned negative ahead of the imposition of sanctions and continued along this path for a further two years.

Turkish central bank data already shows that since February, foreign portfolio investors have withdrawn a net USD4.7bn from Turkish markets, the bulk from debt securities. At the same time the CBRT's C/A data shows that the deficit has swollen to USD57.2bn on a 12-month rolling basis (as of July 2018), (see graph below).



Factoring in market losses and the deteriorating exchange rate, non-residents' ownership of Turkish equities, government bonds and corporate debt has plummeted (see the following CRBT graphic).



Turkey has said it will retaliate against the US in the same way and without delays, signalling that Ankara will not back down in an escalating dispute over the detained American pastor. Unless Trump uses rhetoric to deescalate, we are not confident that the Turkish President will back down, as Erdogan sees a fight with the US as enhancing his “global" standing, at least amid activist Islamists. Much like Putin managed during the fallout from the sanctions Erdogan can deflect the blame for Turkey's economic woes away from his own policies, on to external influences, vindicating his rhetoric on 'foreign enemies' trying to destroy the economy.

More Pain for Turkish Markets

Because of this we see potential for further downside risks to Turkish markets, and focusing on USD/TRY, expect that the pair could extend the upside to 5.1954 in the near term (see the following technical chart).

Cont. page 8

US Sanctions To Be More Painful For Turkey Than Russia … continued

Back to Index Page

- Extends recent gains from 4.7368 (23 July higher low) to probe the top of a shallow 2-1/2 month rising channel.
- New record highs have been established over 5.0000 and strengthening multi-timeframe studies suggest a rally extension moving forward.
- Initial resistance is pegged at 5.0527 (.5 projection of 3.7163/4.9253 from 4.4482), beyond which opens 5.1954 (.618 projection from 4.4482).
- Only a failure to hold over 5.0000 and/or a return below 4.8420 (27 July low) would caution and leave 4.7368 vulnerable to a re-test.

China Insight: Potential Relaxation Of MPA Requirements To Boost Credit Growth

By Tim Cheung, Head of China & Riki Zhang EM Analyst

Back to Index Page

PBOC has informed some commercial banks of a relaxation of MPA (Macro Prudential Assessment) requirements for Q2 assessment, according to recent reports.

The MPA has been imposed on commercial banks since 2016. The central bank limits activities of commercial banks using a formula involving seven criteria: capital adequacy, leverage/gearing, liquidity, pricing behaviour, asset quality, cross-the-border financing, and credit execution. As per the news reports, the structural parameter derived from the formula from Q2 onwards will be lowered to 0.5 from 1.0. This could mean commercial banks will have greater freedom to lend more credit going forward.

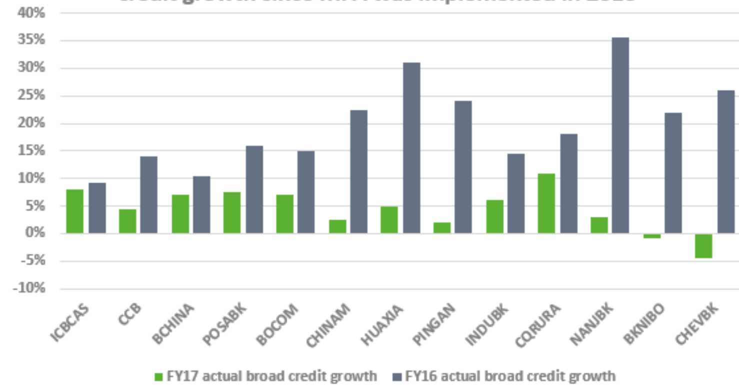
Needlessly to say, the major motive behind the reported MPA requirements relaxation is to boost credit growth. Assume this really happens, we expect:

- Shadow activities will likely face less pressure, benefiting local government infrastructure and property the most.
- Banks with relatively large shadow activities will likely feel less pressured.

Chart 1 suggests that the major banks in China have seen a substantial decline of their credit growth since MPA was implemented in 2016.

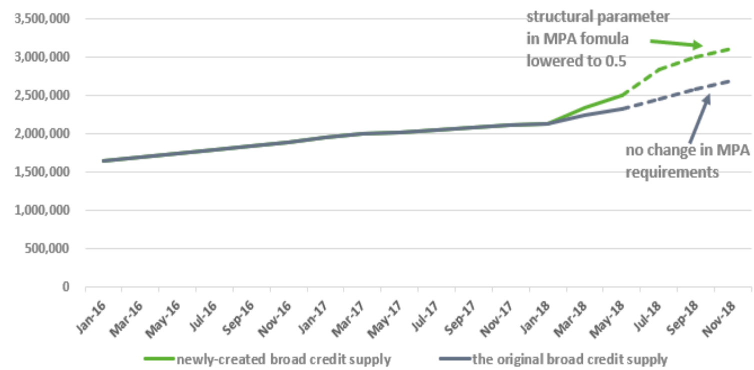
Since Q1 2017, off-balance-sheet wealth management products (WMPs) have been included in the calculation of broad credit supply. We find that a reduction of the structural parameter derived from the MPA formula to 0.5 will result in a CNY41.9tn extra-increase in the newly-created broad credit supply on top of the initially estimated one of CNY63.4tn (chart 2).

Chart 1
China's major banks have seen substantial decline of their credit growth since MPA was implemented in 2016



Data source: Goldman Sachs

Chart 2
newly-created broad credit supply (including WMPs)



Data source: WIND

Cont. page 10

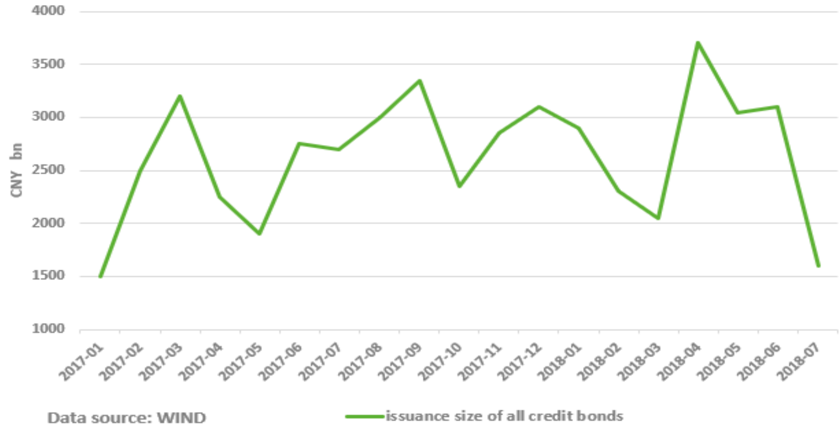
China Insight: Potential Relaxation Of MPA Requirements To Boost Credit Growth … continued

Back to Index Page

Once banks become less restricted from creating loans on a reduction of the structural parameter derived from the MPA formula to 0.5, the credit market definitely will turn more active.

Chart 3 shows onshore bond issuance in China has been shrinking since Q2, negatively impacting those entities which needs debt financing.

Chart 3
China onshore credit bond issuance has been declining since Q2 2018



Data source: WIND

The following pages are dedicated to Technical Analysis.

IGM's global team of Technical Analysts constantly look for interesting patterns in prevailing price action of a broad range of currency pairs, fixed income and commodity products.

We will highlight the most compelling on these pages.

For information on the full spectrum covered, please contact your Account Manager.

London
+44 20 7017 5402

New York
+1 212 907 5802

Tokyo
+81 3 6273 4273

Hong Kong
+852 2234 2000

Singapore
+65 6411 7788

Shanghai
+8621 2326 3766

Chart Watch China: SHASHR (Shanghai Stock Exchange A Shares) - Has The Current Recovery Played Out?

Technical Analysis by Jimmy Lee

Back to Index Page

The SHASHR (Shanghai Stock Exchange A Shares)'s recovery extended off 2818.06 as the market started to postulate that perhaps, faced with an escalating trade confrontation with the US, plus slowing economic growth momentum, the Chinese authorities may be reverting from deleveraging to a stimulus stance.

This can be seen in recent policy actions which have seen more pressures on commercial banks to increase lending and the commencement of new infrastructure projects.

However, we believe that insights gained from the 31 July Communist Party Politburo meeting, chaired by President Xi, where he re-emphasized deleveraging and financial risk prevention yet again, suggest the Chinese authorities remain committed to the continued curbing of economic excesses.

Granted, this has been complicated in recent months from an aggressive Trump administration and given the current economic climate, the pace and magnitude which they will proceed on their deleveraging is of course open to debate. But bear in mind that even if the current policy stance is turning accommodative in certain aspects (note on the property front, they continue to stress a strong determination to control prices), we believe it is more of an adjustment to avoid any full-blown crisis from their managed slowdown rather than a large-scale stimulus.

Any large-scale stimulus will probably only come about closer to 2020 as they ensure that the country will face a rosy economic picture in 2021, in time, for the 100th anniversary of the founding of the CCP (Chinese Communist Party).

As such, we advise against any over-exuberance in this current China easing bias narrative. In fact we view the current recovery in SHASHR as an opportune time to sell into rallies as there is likely another major down leg in the weeks/months ahead before the real bargain hunting for longer term buy opportunities abound.

SHASHR Technical Outlook

- Since the gap down on 22 March 2018, and subsequent lower ceiling developed at 3373.25 - 3372.25 (11 April/21 May highs), price structure has turned decisively bearish
- Subsequent breakdown below the key support at 3158.88 (11 May 2017 low) on 19 June, firms this shift to a bearish paradigm
- The RSI has also consistently been capped below the bear range ceiling at 60 for the past 6 months, further reinforcing our bearish views
- 2818.06 (6 July low / also near 123.6% of 3757.20-3207.61 off 3494.08) tested so far, but recent recovery off there on the back of the "China reverting back to easing bias narrative" appears to have halted at 3053.32
- This could be a lower high to pivot a fresh down leg, below 2818.06 to confirm and trigger initial 2760.92 - 2734.55 (27 Jan 2016 low - 138.2% of 3757.20 - 3207.61 off 3494.08) ahead of 2669.70 – 2604.85 (150% - 161.8% projection)
- Any attempts to rally should now find difficulty penetrating the 3053.32 - 3185.30 zone

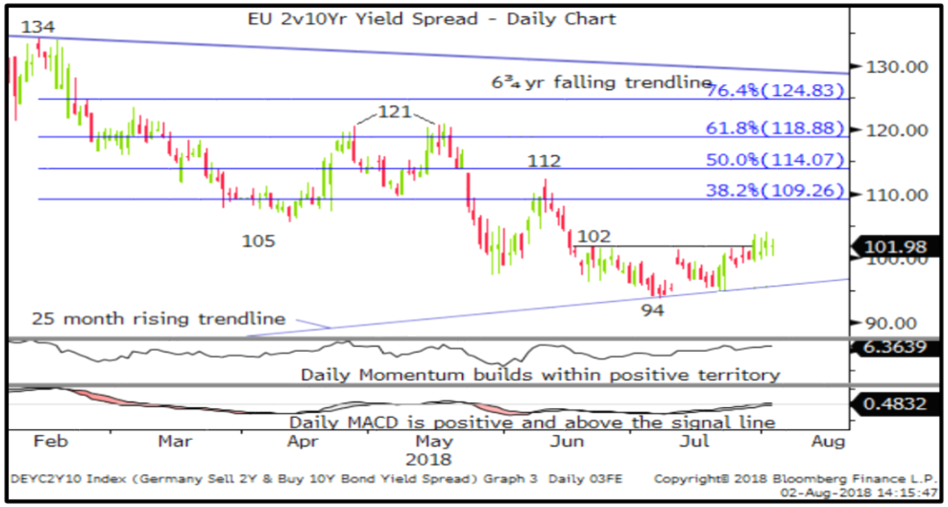
Based on our overall macro view of the Chinese economy and the broader bearish structure of the technical chart, we view rally attempts as likely to be corrective and as such we advocate selling into the 3053.32 - 3185.30 zone. Place Stops above the 3276.97 lower high. Alternatively, more aggressive traders could sell at market or on a break below 2818.06. Place stops above 3053.32.

EU 2v10 Yr Yield Spread – Recent Basing Suggests Scope To 112/121

Technical Analysis by Ed Blake

Back to Index Page

- Narrowed from 134 (2018 high - 12 February, also a 6¾ year trendline) to reach 94 (2018 lows - 5-9 July, also a 25-month rising trendline), before ranging
- A 6½ week base has just been signalled over 94 and firming daily/weekly studies suggest initial scope to 112
- A clearance would then suggest more significant widening targeting strong resistance clustered between 119/121
- Only a reversal below 94 would avert current widening potential and risk the 2017 low at 85



STRATEGY SUMMARY

Buy into any near-term dips as we await renewed widening targeting 112, perhaps 121. Stop and reverse on a return below the recent 94 low

Resistance Levels		
R5	129	6¾ year falling trendline
R4	125	76.4% retrace of 134-94 narrowing
R3	121	26 April and 16/17 May 2018 highs, near 61.8% retrace of 134-94 narrowing at 119
R2	114	50% retrace of 134-94 narrowing, near 11 June 2018 lower high at 112
R1	110	Recent 94-102 base target, near 38.2% retrace of 134-94 narrowing at 109
Support Levels		
S1	94	2018 lows - 5-9 July, near a 25-month rising trendline at 95
S2	91	50% retrace of 48-134 (2016-2018) widening, near equality of 134-105 from 121 at 92
S3	85	2017 low – 27 June
S4	81	61.8% retrace of 48-134 (2016-2018) widening, near 28 October 2016 former high at 82
S5	74	9 November 2016 higher low

AUD/NZD – Multi-Year Base Expected To Resolve Higher

Technical Analysis by Andy Dowdell

Back to Index Page

- Formed a series of higher lows off 1.0021, underpinned by a rising trendline
- 50-Month MA has flattened out and the market is now on the verge of breaking out from a 7+Year Bear Channel
- Scope is seen for a stronger recovery, targeting 1.1291 next followed by the 1.1430/63 area
- Dips should attract fresh bids ahead of/near the 50-Month MA. Sub 1.0659 risks further congestion/test lower

STRATEGY SUMMARY

Look to buy dips for an advance to 1.1430/63. Place stop below 1.0659

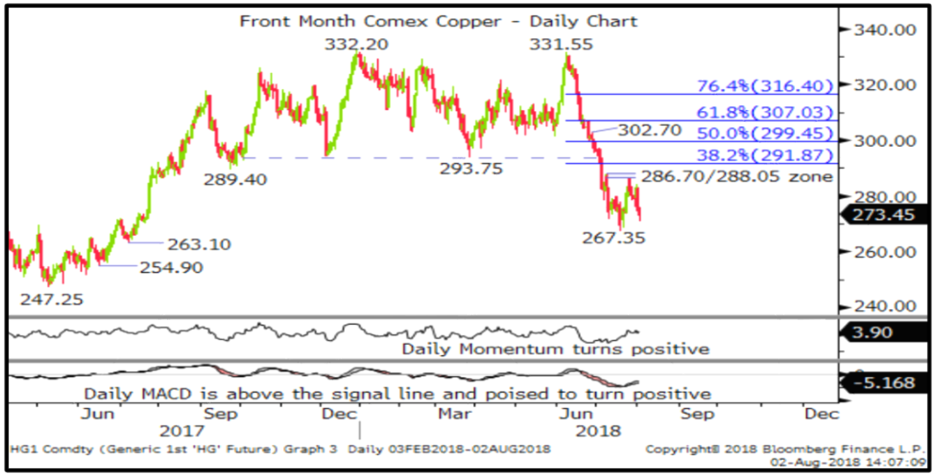
Resistance Levels		
R5	1.1909	50% of 1.3796-1.0021 fall
R4	1.1660	4 September 2013 high
R3	1.1430	2 July 2015 high, near 38.2% of 1.3796-1.0021 fall at 1.1463
R2	1.1291	24 October 2017 high
R1	1.1073	29 January 2018 high
Support Levels		
S1	1.0780	22 June 2018 high, near the 50-Month MA
S2	1.0659	19 June/9 May 2018 lows
S3	1.0488	12 April 2018 lows
S4	1.0362	26 June 2017 low
S5	1.0238	14 September 2016 low

COMEX Copper – Scope For A Bounce While 267.35 Limits Dips

Technical Analysis by Ed Blake

Back to Index Page

- Completed a multi-month double top (332.20/331.55) in early July and fell dramatically to 267.35 (19 July low)
- Daily studies build amid the recent loss of downside momentum and over 288.05 (10 July high) suggests basing
- Scope then seen to 291.87/293.75 (38.2% of 331.55/267.35 & double top trigger), perhaps 302.70 (27 June high)
- A failure at 288.05 and/or a return below 267.35 averts and signals a downtrend resumption to 254.90/246.50



STRATEGY SUMMARY

Buy near term dips in anticipation of a bounce towards 293.75, perhaps 302.70. Stop and reverse on a return below 267.35 for a downtrend resumption to 254.90/246.50

Resistance Levels		
R5	317.30	18 June 2018 high, near 76.4% retrace of 331.55/267.35 fall
R4	307.50	21 June 20018 high, near 61.8% retrace of 331.55/267.35 fall
R3	302.70	27 June 2018 high and just over 50% of 331.55/267.35 fall
R2	293.75	26 March 2018 low/double top trigger and near 38.2% retrace of 331.55/267.35 fall
R1	288.05	10 July 2018 high, near 25 July 2018 high at 286.70 and 31 July 2018 high at 284.15
Support Levels		
S1	267.35	2018 lows – 19 July
S2	262.90	50% retrace of the 193.55/332.20 (2016-2017) rally, near 10 July 2017 higher low at 263.10
S3	254.90	15 June 2017 low, near the 332.20/331.55 double top target at 255.30
S4	246.50	61.8% retrace of 193.55/332.20 (2016-2017) rally, near 4 January/8 May 2017 lows at 247.25
S5	232.35	18 March 2016 former high

IFI: who we are and how to contact us

Informa Financial Intelligence (IFI), a unit of Informa plc (LSE: INF), provides fund flows, asset allocation, FX, credit issuance and banking data, quantitative products, research and analysis to financial institutions – both public and private -- around the world. Our market moving data services include daily, weekly, and monthly equity and fixed income fund flows and monthly fund allocations by country, sector and industry.

IFI encompasses products providing data, analysis and solutions to the mutual fund, banking, wealth management, investment advisory and public sectors: EPFR Global, Informa Global Markets (IGM), Informa Investment Solutions (IIS), iMoneyNet, TrimTabs, WealthManagement.com, PlacementTracker, Informa Research Services, eBenchmarkers, Mapa Research and BankTrends.

To find out more, please visit: https://financialintelligence.informa.com

To contact us, please email: sales.financial@informa.com

London	New York	Tokyo	Hong Kong	Singapore	Shanghai
+44 20 7017 5402	+1 212 907 5802	+81 3 6273 4273	+852 2234 2000	+65 6411 7788	+8621 2326 3766